

[REDACTED]
[REDACTED]
[REDACTED]
OCT 10 1962

Gentlemen:

We have considered your application for exemption under section 501(c)(3) of the Internal Revenue Code of 1954.

The information submitted discloses that your organization was incorporated under the laws of the State of [REDACTED] on [REDACTED].

The information submitted also discloses that you will offer management services to various types of nursing homes, including public, private and proprietary homes.

Section 501(c)(3) of the code provides for the exemption from Federal income tax of organizations that organized and operated exclusively for charitable or educational purposes, no part of the net earnings of which inures to any individual.

Section 1.501(c)(3)-1 of the Income Tax Regulations states that an organization will be regarded as "operated exclusively" for one or more exempt purposes only if it engages primarily in activities which accomplish one or more of such exempt purposes specified in section 501(c)(3). An organization will not be so regarded if more than an insubstantial part of its activities are not in furtherance of an exempt purpose.

Section 1.501(c)(3)-1 of the Income Tax Regulations provides that, in order to be exempt as an organization described in section 501(c)(3) of the code, an organization must be both organized and operated exclusively for one or more of the purposes specified in that section. An organization is not operated exclusively for an exempt purpose if its primary activity is carrying on an unrelated trade or business.

We call your attention to section 502 of the Internal Revenue Code which deals with organizations which are operated for the primary purpose of carrying on a trade or business for profit and which turn over all their profits to one or

more organizations exempt under section 501 of the code. An organization is considered to be engaged in a trade or business where the activity is of a kind ordinarily carried on for profit, and is regularly carried on in a manner similar to a commercial operations.

Revenue Ruling 72-369, 1972-2, C.B. 245 holds that an organization formed to provide managerial and consulting services at cost to unrelated exempt organizations does not qualify for exemption.

An organization is not exempt, merely because its operations are not conducted for the purpose of producing a profit. To satisfy the "operational test" the organization's resources must be devoted to purposes that qualify as exclusively charitable within the meaning of section 501(c)(3) of the code and the applicable regulations. Providing managerial service for a fee is a trade or business ordinarily carried on for profit. The fact that the service is provided for some non-profit organizations is not sufficient to characterize this activity as charitable within the meaning of section 501(c)(3) of the code.

We have concluded that you do not qualify for exemption from Federal income tax as an organization described in section 501(c)(3) of the code, in as much as you are operating a business. You are, therefore, required to file income tax returns on Form 1120.

If you do not agree with these conclusions, you may request Appeals Office consideration. To do this, you must submit to the District Director within 30 days from the date of this letter, a statement of facts, law, and arguments, in duplicate, which will clearly set forth your position. You also must state whether you wish an Appeals Office conference. Any submission must be signed by one of your principal officers. If the matter is to be handled by a representative, the Conference and Practice Requirements regarding the filing of a power of attorney and evidence of enrollment to practice must be met.

If you do not protest this proposed determination in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies. Section 7428(b)(2) of the Internal Revenue Code provides in part that, "A declaratory judgment or decree under this section shall not be issued in any proceeding unless the Tax Court, the Court of Claims, or the District Court of the United States for the District of Columbia determines that the organization involved has exhausted administrative remedies available to it within the Internal Revenue Service."

[REDACTED]

On final determination, copies of this letter will be forwarded to appropriate State officials in accordance with section 6104(c) of the Internal Revenue Code.

If we do not hear from you within the time specified, this communication will become our determination in the matter.

Very truly yours,

[REDACTED]
District Director

Enclosure:
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